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**ARIZONA CORPORATION COMMISSION**

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Executive Secretary

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July 14, 2004

Mr. William Post  
Chairman  
Arizona Public Service  
PO Box 53999  
Phoenix, AZ 85072-3999

Dear Mr. Post:

These last few weeks have been difficult for power utilities and customers in Arizona. As you know, in June the Palo Verde power plant tripped due to a transmission system fault in the West Valley, the cause of which has yet to be determined. On July 4, a fire engulfed a transformer bank and damaged three others at the Westwing substation, which is operated by APS and located at 107<sup>th</sup> Ave and Beardsley in the West Valley.

The latest incident has forced both APS and SRP to ask their customers to conserve energy. APS and SRP customers should be commended for their willingness to voluntarily conserve so that, thus far, no one went without electrical service. Hopefully, with the continued help of the residents of the Valley, as well as the concerted efforts of the utilities, we will make it through this power crunch. That said, the events of the past month have raised serious concerns about the interrelationship between the two power incidents in the West Valley as well as what the Westwing substation fire may say about the reliability of the Valley's power grid.

I understand that APS has commenced an investigation of the events and has already hired an outside investigator to conduct the investigation. As part of this examination, I would ask that the utilities undertake a comprehensive evaluation of the power system to determine if the Palo Verde and Westwing events are related. As you know, the hottest part of the summer is still ahead and we need to ensure that we have a safe, reliable power supply for the Valley. I also believe your investigators should regularly brief the Corporation Commission's staff on their progress and provide answers to any questions posed by our staff or Commissioners during the investigation.

Moreover, I believe this latest incident points up a potential weakness in the Valley's power supply that this Commission and the state's major utilities must begin to address. Specifically, I believe the ACC and the utilities should analyze whether there are enough transformers to accommodate the transmission of power into the Valley. While the loss of five transformers in a single day has to be considered extraordinary, it is now evident that such a large-scale loss is within the realm of possibility. Now that this event has occurred, I would like

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to know whether APS and other utilities that make use of substations in the Valley plan to make such a possibility a part of future preparedness planning.

Finally, please apprise me of APS's plan to deal with the expected up-tick in energy consumption as we move toward the hottest portion of the summer. What other measures has the utility considered to promote conservation efforts through the remainder of the summer?

Please keep me apprised of any developments in the matter.

Sincerely,

A handwritten signature in black ink, appearing to read "K Mayes", written over a horizontal line.

Kristin K. Mayes

Cc: Chairman Marc Spitzer  
Commissioner William A. Mundell  
Commissioner Mike Gleason  
Commissioner Jeff Hatch-Miller  
Ernest Johnson, Utilities Director  
Brian McNeil